

## Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05  
CIEP-01 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00  
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01  
L-03 H-01 PA-01 PRS-01 NEA-10 INT-05 IO-13 /110 W  
-----261131Z 049944 /10

P 261005Z JAN 77  
FM AMEMBASSY RANGOON  
TO SECSTATE WASHDC PRIORITY 2917  
INFO AMEMBASSY MANILA PRIORITY

C O N F I D E N T I A L SECTION 1 OF 2 RANGOON 0257

FOR NAC AGENCIES; MANILA FOR USADB

E.O. 11652: GDS  
TAGS: EAID, EFIN, ADB, BM  
SUBJ: PROPOSED ADB LOAN FOR FORESTRY PROJECT (BURMA)

REF: (A) MANILA 1019, (B) 76 RANGOON A-97, (C) 76 RANGOON 3302

### SUMMARY

BASED ON THE POTENTIAL OF BURMA'S TIMBER INDUSTRY FOR GREATER OUTPUT AND INCREASED FOREIGN EXCHANGE EARNINGS, AND THE INDUSTRY'S NEED FOR ADDED INVESTMENT TO ACHIEVE THIS POTENTIAL, THE EMBASSY CONCURS WITH USADB'S RECOMMENDATIONS FOR FAVORABLE NAC ACTION. HOWEVER, BASED ON ITS PAST PERFORMANCE, WE HAVE GRAVE MISGIVINGS ABOUT THE ABILITY OF THE GUB TIMBER CORPORATION TO SUCCESSFULLY IMPLEMENT THIS PROJECT AND WE URGE THAT ADB MONITOR THE PROJECT CLOSELY AND DRAW UP STRICT REQUIREMENTS TO ASSURE IMPLEMENTATION.  
END SUMMARY.

1. THE PROPOSED PROJECT IS IN LINE WITH GUB DEVELOPMENT PLANS WHICH ACCORD HIGH PRIORITY TO THE FORESTRY SECTOR. BURMA WITH A NEAR MONOPOLY ON THE WORLD'S  
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TEAK RESERVES AND VAST RESERVES OF OTHER HARDWOODS SEEMS IN A GOOD POSITION TO TAKE ADVANTAGE OF A PREDICTED LONG-TERM FAVORABLE WORLD TIMBER MARKET IF EXTRACTION, TRANSPORTATION AND MANAGEMENT PROBLEMS CAN BE OVERCOME. TIMBER PRODUCTS COULD ALSO PROVIDE THE BASIS FOR SOME INDUSTRIAL DEVELOPMENT WITHIN BURMA. HOWEVER, MUCH ADDITIONAL INVESTMENT IS REQUIRED IF BURMA'S

FOREST INDUSTRY IS TO REACH ITS POTENTIAL.

2. ALTHOUGH TIMBER RANKS AS BURMA'S SECOND MOST IMPORTANT FOREIGN EXCHANGE EARNER, PRODUCTION AND EXPORTS HAVE DECLINED IN RECENT YEARS. NET OUTPUT VALUE OF THE FORESTRY SECTOR DECLINED NEARLY 5 PERCENT IN BURMESE FY 1975/76 (APRIL-MARCH) WHEN COMPARED WITH THE PREVIOUS PERIOD, AND TEAK PRODUCTION FELL TO ITS LOWEST LEVEL IN THE PAST DECADE. THIS LOWER OUTPUT RESULTED IN DECREASED EXPORT EARNINGS FROM TIMBER. INSURGENT ACTIVITIES, LACK OF MODERN EQUIPMENT AND SPARES, POOR MACHINERY MAINTENANCE AND SIMPLE MIS-MANAGEMENT HAVE COMBINED TO CONSTRAIN BURMA'S TIMBER OUTPUT. FOR FURTHER DISCUSSION SEE REF B.

3. BASED, THEREFORE, ON THE POTENTIAL FOR BURMA'S TIMBER INDUSTRY, AND THE INDUSTRY'S NEED FOR INVESTMENT CAPITAL AND MANAGEMENT GUIDANCE, THE EMBASSY CONCURS WITH THE USADB RECOMMENDATION FOR FAVORABLE NAC ACTION.

4. HOWEVER, WE HAVE GRAVE MISGIVINGS ABOUT THE ABILITY OF THE TIMBER CORPORATION (TC) TO PROPERLY IMPLEMENT THIS PROJECT WITHOUT ADDITIONAL REQUIREMENTS FOR ENSURING EFFICIENT IMPLEMENTATION BEYOND THOSE OUTLINED IN REF A. THE TC'S PAST RECORD ON IMPLEMENTATION IS VERY POOR. RECENTLY A CANADIAN AID OFFICIAL DESCRIBED THE TC'S IMPLEMENTATION OF A CANADIAN WORKSHOP PROJECT FOR REPAIR AND MAINTENANCE OF TIMBER EXTRACTION MACHINERY AS A "DISGRACE." LITERALLY NOTHING HAD BEEN DONE SINCE  
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THE DEPARTURE OF CANADIAN EXPERTS SEVERAL YEARS AGO, E.G. MACHINERY PROVIDED UNDER THE PROJECT HAD NOT EVEN BEEN CONNECTED AND ALL PERSONNEL TRAINED BY THE CANADIANS HAD BEEN TRANSFERRED TO UNRELATED JOBS. HE FURTHER STATED THAT IN CIDA'S EXPERIENCE THE TC IS THE MOST INEFFICIENT OF ALL GUB CORPORATIONS.

5. AS FOR THE IDA-FUNDED FORESTRY PROJECT, IT IS FAR BEHIND SCHEDULE AND BESET WITH PROBLEMS, MOST OF WHICH CAN BE TRACED TO TC MISMANAGEMENT. RECENTLY A SENSITIVE GUB SOURCE PROVIDED THE EMBASSY WITH AN INHOUSE REPORT SUBMITTED BY AN IBRD SUPERVISION MISSION WHICH VISITED BURMA LAST NOVEMBER TO EVALUATE THE PROJECT'S PROGRESS. THE REPORT LISTS ELEVEN SEPARATE PROVISIONS OF THE DEVELOPMENT CREDIT AGREEMENT AND NUMEROUS OTHER IBRD RECOMMENDATIONS WHICH THE TC HAS FAILED TO COMPLY WITH. THESE INCLUDE: FAILURE TO PROVIDE SUFFICIENT AND TIMELY SUPPLIES OF FUNDS, FACILITIES AND SERVICES; FAILURE TO CARRY OUT INTERNAL AUDITING RESPONSIBILITIES; DELAYS

IN SUBMITTING PROGRESS REPORTS AND FINANCIAL STATEMENTS; AND DELAYS IN RECRUITING CONSULTANTS AND SPECIALISTS.

6. PARA 18 OF REF A NOTES THAT PROJECT COMMITTEES BASICALLY SIMILIAR TO THOSE FOR THE IDA PROJECT WILL BE ESTABLISHED TO ASSIST IN IMPLEMENTATION. THE SUPERVISION REPORT MAKES THE FOLLOWING OBSERVATION REGARDING THE EFFECTIVENESS OF THESE COMMITTEES IN CONJUNCTION WITH THE PRESENT FORESTRY PROJECT:

A. PROJECT PLANNING COMMITTEE

"THIS COMMITTEE WAS INTENDED TO COMPRISE ONLY 7 MEMBERS. IT NOW HAS 12 MEMBERS INCLUDING ALL PROJECT H.Q. MANAGERS. THE STRUCTURE IS UNWIELDY AND THE COMMITTEE IS GENERALLY INEFFECTIVE."

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05  
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-----261132Z 049865 /10

P 261005Z JAN 77

FM AMEMBASSY RANGOON  
TO SECSTATE WASHDC PRIORITY 2918  
INFO AMEMBASSY MANILA PRIORITY

C O N F I D E N T I A L SECTION 2 OF 2 RANGOON 0257

FOR NAC AGENCIES; MANILA FOR USADB

B. PROJECT REVIEW COMMITTEE

"THE COMMITTEE DOES NOT APPEAR TO BE RESPONSIVE TO THE PROJECT PROBLEMS, ADVICE GIVEN IS VERY LIMITED, NO MONITORING DONE, TOO FORMAL IN FUNCTIONING; AND TENDS TO INTERFERE IN MANAGEMENT MATTERS WHICH PROPERLY SHOULD BE THE PEROGATIVE OF THE TC MANAGING DIRECTOR, AND THE PROJECT DIRECTOR."

7. THE REPORT NOTES THAT THE ADB HAS REQUESTED THAT IDA KEEP IT INFORMED OF THE PROGRESS OF ITS PROJECT, AND WE ASSUME THE ADB IS AWARE OF THE FINDINGS. THE

EMBASSY IS PREPARING AN AIRGRAM ENCLOSING THE REPORT  
AND NOTING AN APPARENT IRREGULARITY IN PROCUREMENT OF  
LOGGING TRUCKS UNDER THE IDA PROJECT.

8. IN ADDITION, A GUB INVESTIGATION OF A NUMBER OF TC  
PERSONNEL IN CONNECTION WITH ALLEGED IRREGULARITIES IN  
THE SALE OF TEAK AND PROCUREMENT OF EQUIPMENT HAS FURTHER  
REDUCED MORALE AND INCENTIVE AMONG THE TC STAFF.

9. THUS, WE URGE THAT ADB MONITOR THIS PROJECT MORE  
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CLOSELY THAN IT HAS PAST PROJECTS IN BURMA AND THAT IT  
DRAW UP VERY STRICT REQUIREMENTS TO HELP ASSURE EFFICIENT  
IMPLEMENTATION AS ONE SUGGESTION WE BELIEVE THE ADB  
SHOULD DEVIATE FROM STANDARD PRACTICE AND RECRUIT AND  
PAY INDIVIDUAL CONSULTANTS DIRECTLY, THUS MAKING THEM  
RESPONSIBLE TO THE BANK RATHER THAN THE TC. CON-  
SULTANTS WITH THE IDA PROJECT CLAIM THE TC HAS COERCED  
THEM PNT TO SIGNING DOCUMENTS AND TAKING ACTIONS WITH  
WHICH THEY DISAGREE.  
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## Message Attributes

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**To:** STATE  
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